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UNCLAS SECTION 01 OF 02 VIENNA 002636

SIPDIS

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TREASURY FOR OASIA/ICB (VIMAL ATUKORALA)
TREASURY PLEASE PASS TO OCC (EILEEN SIEGEL)
TREASURY PLEASE PASS TO FEDERAL RESERVE
USDOC FOR OITA AND 4212/MAC/EUR/OWE (PDACHER)
PARIS ALSO FOR USOECD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ELAB](#) [EUN](#) [AU](#)

SUBJECT: AUSTRIA'S 2007/2008 ECONOMIC OUTLOOK - STRONGER GROWTH IN
2007, BUT SLOWING DOWN IN 2008

REF: VIENNA 2001

Summary

¶1. Austria's two leading economic institutes recently revised their GDP growth forecasts upward for 2007 to 3.2-3.4%, but slightly revised downward their growth expectations for 2008 to 2.4-2.6%. Strong exports and a robust investment cycle continue to drive growth, while private consumption growth remains disappointing. Downside risks for 2008 growth include uncertainty about the duration and severity of the U.S. mortgage and real estate problems; a strengthening Euro, which could dampen export growth; and the possibility of a U.S. recession. Austria's unemployment rate should drop to 4.3% in 2007, however average annual growth rates of 2.4% through 2011 will not create enough new jobs to offset new entrants to the labor market. Starting in 2010/2011 Austria will face a labor shortage without an increase in immigration. End Summary.

2007-Stronger Growth, 2008-Less Dynamic

¶2. The Austrian Institute for Economic Research (WIFO) and the Institute for Advanced Studies (IHS) recently revised their growth projections for 2007 and 2008 upward to 3.2% and 3.4%, respectively. Booming exports and robust investment are still driving growth, while private consumption continues to grow at a modest two percent rate - a result of meager wage increases over the past several years.

¶3. The WIFO and the IHS both slightly revised 2008 growth estimates downward to 2.4-2.6% due to the anticipated slowing of global growth, particularly in the Euro area. The institutes predict that cyclical factors, such as a shortage of qualified labor and production capacity limitations, will also contribute to weaker growth in 2008. For the U.S. economy, the institutes' views diverge somewhat: the WIFO expects a modest slowdown in 2008, while the IHS expects stronger growth in 2008 than in 2007.

Assumptions for Growth Forecasts

¶4. The institutes based their revised 2007/2008 forecasts on the following assumptions:

- U.S. economic growth of 1.9-2.0% in 2007 and 1.8-2.5% in 2008;
- Euro area growth of 2.5-2.7 in 2007 and 1.9-2.3% in 2008;
- EU-27 growth of 2.7-2.9% in 2007 and 2.1-2.5% in 2008;

-- German growth of 2.5% in 2007 and 2.3% in 2008;
 -- oil prices of \$64-67 per barrel in 2007 and \$67-69 in 2008; and
 -- dollar/Euro exchange rates of 0.74 in 2007 and 0.71-0.74 in
 ¶2008.

Risks: U.S. Economy, Financial Crisis, Exchange Rates

¶5. According to both WIFO Director Karl Aiginger und IHS Director Bernhard Felderer, despite slower growth in 2008, there are no signs of a downturn or major external shocks on the horizon. However, there are several downside risks for the 2008 forecast:

-- uncertainty about the duration and severity of current problems in the U.S. mortgage and real estate sectors and whether the problems will affect the real economy;
 -- a further strengthening of the Euro vis-a-vis the Dollar could dampen growth in Europe; and
 -- a recession in the U.S., although unlikely, cannot be excluded.

Unemployment Down to 4.2%, No Further Improvements

¶6. Robust economic growth should create up to 60,000 new jobs in 2007 and another 30,000 jobs in 2008. However, the number of unemployed will decrease by only 15,000 in 2007 and 1,000 in 2008, because of continued strong growth in labor market supply. The unemployment rate will thus ease from 4.7% in 2006 to 4.3% in 2007, with no further improvement in 2008.

¶7. According to the WIFO's medium-term forecast, the unemployment

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rate will not change significantly through 2011, with an annual average economic growth rate of 2.4% over the period insufficient to generate significant numbers of new jobs. Starting in 2010/2011, there should be a noticeable decline in new entrants into the Austrian labor market, absent increased immigration. The share of 15-19 year olds in Austria's total population will drop from 6.0% in 2010 to 5.0% in 2020. According to IHS Director Aiginger, without additional immigration, Austria's labor supply will decline 15% by
 ¶2015.

¶8. Statistical Annex

Austrian Economic Indicators (percent change from previous year, unless otherwise stated)

	WIFO project. 2007	IHS project. 2007	WIFO project. 2008	IHS project. 2008
Real terms:				
GDP	3.4	3.2	2.4	2.6
Manufacturing	7.3	n/a	3.0	n/a
Private consumption	1.9	2.0	2.1	2.2
Public consumption	2.0	2.1	2.3	2.8
Investment	6.3	5.9	3.7	3.9
Exports of goods	9.0	6.8	6.5	6.4
Imports of goods	8.4	7.0	6.2	7.3

Nominal Euro billion equivalents:

GDP	272.7	270.9	284.7	282.1
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Other indices:

GDP deflator	2.2	1.8	2.0	1.5
Consumer prices	1.9	1.8	2.0	1.6
Unemployment rate	4.3	4.3	4.2	4.3
Current account (in percent of GDP)	3.5	n/a	3.7	n/a
Exchange rate for				

US\$ 1.00 in Euro

0.74

0.74

0.71

0.74

MCCAW